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5 November 1984

MEMORANDUM FOR THE RECORD

SUBJECT: Support for Mike Armacost

Last week Mike asked us for some input to a speech he is making in San Francisco on 10 November. He wanted our very informal thoughts on some major political, economic, and strategic trends in the region. At his request we rushed them over to him late last week so they could be cabled out during his travels in the Middle East. [REDACTED]

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[REDACTED]

I thought you would like to see what we sent.

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[REDACTED]

Director
East Asian Analysis

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Attachment:
As stated

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[REDACTED]

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25 October 1984

Some Key OEA Trends and Issues

China and Reform. The implications of China's economic reforms could become the most significant new political development in the region.

- If fully implemented, the economic reform package will change the face of Chinese socialism and open the way for further political and economic evolution. If the reforms fail, the party will continue its decline in legitimacy and probably will fall back on a mix of policies already proven unsuccessful. In either outcome, the Chinese economy will remain socialist in its essentials.
- Success. The success of these policies would carry both opportunities and risks for the party. For the boldness of vision and skillful implementation that success will require, the party would justifiably take credit. It would also arm the party's reform wing against its detractors and help reform China's poorly trained bureaucracy by admitting more managers and engineers. At the same time, by deliberately choosing to delegate some economic decisionmaking power, the party runs the risks of establishing spheres of activity that may gradually grow immune to party tutelage.
- Failure. Deng and his allies have clearly indicated they are prepared to ride out short term problems and anticipate that the early going will be rough. Even if Beijing manages its inevitable short-term problems, an accumulation of incremental breakdowns--such as drought, poor harvests, Deng's death--could over the longer term tip the scales against reform and lead to a retreat. Party leadership at all levels would again be seen as vacillating and unconcerned with the common welfare, precisely the image it seeks to dispell. Failure would almost certainly lead to prolonged political infighting as leaders maneuvered to blame others.
- Foreign Policy Implications. A successful reform package would broaden China's ties with the West and further widen the gulf between Beijing and Moscow. For as long as they last, the reforms' emphasis on technological innovation, foreign capital acquisition and increased joint ventures will expand investment and trade opportunities for US and Western

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businesses. Conversely, the reforms will fuel Moscow's distrust of Beijing, particularly as the Chinese are likely to draw a parallel between their experience and reformist tendencies in Eastern Europe. The failure of reform would have negative consequences for China's open door policy, and would present Moscow with an opportunity to press for further normalization. Unless the Soviets address China's major security concerns, however, we expect that a more conservative leadership in Beijing would continue to look to the United States as a counterweight to Moscow.

Economic Trends. Economic links between the US and East Asia continue to grow, but with one negative trend all too evident. For more than a decade, the US has run a trade deficit with East Asia--one that is steadily mounting. The trend in the trade of manufactured goods is especially noteworthy.

- Last year, East Asia provided about 47 percent of all US imports of manufactured goods, up from 33 percent a decade ago. The ratio of US manufactured imports to exports (from and to East Asia) ran about 1.9 to 1 ten years ago; in 1983, it was 2.4 to 1.
- Japan, South Korea, Hong Kong, and Taiwan together provided over 40 percent of all US imports of manufactured goods last year. Their combined surplus with the US in this category totaled \$46.7 billion--\$12 billion more than the overall US trade deficit with the entire region.
- In time, the complaint often heard in the US about Japan--that it gets a free ride on defense only to take advantage in trade--may be extended more broadly to Northeast Asia. A future recession in the US could provide the climate for such a charge to take hold. In any event, the basic dichotomy that has long marked East Asia--growing economic prowess and continued reliance on the US for security--continues, and probably will become only more pronounced in the future.

Strategic Trends.

Sino-Soviet, Sino-US. Over the past year Sino-Soviet relations have cooled almost in direct proportion to the improvement in Sino-US relations.

- Moscow is particularly concerned over what it perceives to be growing Sino-US security ties. A hardening in the Soviets' attitude became noticeable shortly after President Reagan's visit to China last April and the subsequent flareup on the Sino-

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Vietnamese border when Moscow postponed Soviet first deputy premier Arkhipov's visit to Beijing.

- The Chinese doubt that the Soviets will ever give up the strategic advantages they have gained in Asia in order to improve relations with China. They regard the present leadership in Moscow as especially weak and incapable of accommodating Chinese security concerns, and interpreted the Soviet decision to hold joint exercises with Vietnam last April as a clear sign of this inflexibility.
- Both sides, however, regard it in their interests to keep relations from deteriorating, if only in the hope that new leadership in Moscow or Beijing might lead to some improvement in relations. Both would also like to retain some potential room for maneuver in the strategic triangle.
- At present, the Chinese seem more anxious than the Soviets to reschedule Arkhipov's visit and to expand economic ties, perhaps in part to maintain some semblance of evenhandedness in their dealings with the two superpowers.

In the meantime, Sino-US relations have developed considerable momentum--especially on the military side. The US is now prepared to help the Chinese strengthen their defenses in several areas, such as anti-armor technology.



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- East Asian reactions to Sino-US security cooperation bear watching, especially in Indonesia and Malaysia, but there is little to note as yet.

Korea. We believe that Pyongyang's decision to enter into contacts with Seoul is not an end in itself, but rather designed to set the stage for talks with the US at a later point. Indeed, the PRC has already begun to call for the US and Japan to make some reciprocal gestures, and this will undoubtedly intensify once North-South economic talks begin next month. Meanwhile, other countries (France, Australia) may applaud the North's peaceful line and perhaps reward Pyongyang diplomatically.

- More broadly, we foresee a particularly interesting and perhaps delicate period developing in Korea over the next several years. Among other events, Seoul's

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sponsorship of the 1986 Asian games and the 1988 Olympics will seriously challenge the North's belief that it can continue to deny Seoul legitimacy and international stature. How Chun manages the transfer of power in 1988, how the Kim Chong-il succession plan unfolds in the North and what kind of five-year plan Pyongyang unveils in 1986 are other salient issues.

- The evolving security environment in Northeast Asia is also likely to effect the Peninsula. China's approach to the Korean question clearly has shifted during the past year and Kim Il-song's visit to Moscow--his first in over 20 years--raises the prospects of a shift in Soviet policy as well. Depending on how it develops, a more dynamic triangular relationship between Pyongyang and its communist superpower allies could threaten stability on the Peninsula, or conversely help ease the Korean problem.

Indochina. As the military stalemate in Kampuchea drags on, as the Sino-Soviet relationship hardens and Moscow enlarges its military presence in Vietnam, and as Beijing steps up the political and military pressure on Hanoi, there is a good chance for an escalation of the conflict that in turn would prompt demands for more US involvement by the PRC and ASEAN. It is also possible that some new diplomatic movement could be generated by growing concern about military escalation. At the moment, however, some degree of the former appears more likely than the latter.

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